

Pembina Pipe Line Ltd.



annual report 1965



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Pembina Pipe Line Ltd.

Highlights of 1965

FINANCIAL

Gross revenue	\$ 7,455,316
Net earnings	1,471,846
Net earnings per common share .	0.86
Capital expenditures	5,465,497
Long term debt less current maturities	10,046,900
Investment in fixed assets at year end	41,694,357

OPERATING

<i>Crude oil transmission</i>	
Average daily pipeline deliveries —barrels per day	118,270
Miles of pipe line at year end .	909
<i>Oil and gas production</i>	
Oil production—net barrels . .	122,100
Gas production—billion cu. ft.	3.77
Land—gross acres at year end .	927,811
Land—net acres at year end . .	819,957



Pembina Pipe Line Ltd.

Report to the Shareholders

The Directors take pleasure in submitting to the Shareholders the 11th Annual Report on the results of the Company's operations for the year ended November 30, 1965.

*Pipe Line
Receipts*

Throughput for the year averaged 118,270 barrels per day, down 2,580 barrels per day from 1964. Although the new proration formula which became effective on May 1, 1965 resulted in a decrease in the proportion of the Provincial production allocated to fields served by your Company, an increase in the demand served to limit the reduction in throughput. The Alberta Oil and Gas Conservation Board established the Pembina field remaining recoverable reserves at the end of 1964 as being 1,468,000,000 barrels or 25.2% of the Provincial total. Demand for Alberta crude oil during the first three months of this fiscal year has been below that of the previous year and as a result, we expect a reduction in throughput in 1966 similar to that experienced last year.

*Gas
Production*

During the fiscal year, gas production increased to a daily average of 10.3 mmcf from 4.1 mmcf in 1964. This increase was brought about by the purchase of additional gas producing properties in the Medicine Hat area and in part by an increase in demand. At November 30, 1965, your Company owned 38.8 net gas wells all of which are in the Medicine Hat area. During 1966 we expect demand for natural gas from wells in which Pembina holds an interest will increase.

*Oil
Production*

Oil production for the year, after deducting royalties, amounted to 122,100 barrels compared with 14,000 barrels in 1964. The average production for November, 1965 was 449 barrels per day while the average production was 216 barrels per day for November, 1964. Your Company owned 17.0 net oil wells at November 30, 1965 compared with 9.9 net oil wells at the previous year end.

*Pipe Line
Construction*

The expansion of the pipe line system in 1965 added 39.4 miles of new line to connect 32 additional batteries. In total, 173 new wells were serviced by the system. Substantially fewer batteries are expected to be connected in 1966 due to less development activity in the Pembina area. A 14-mile 8-inch line was built by South Alberta Pipe Lines Ltd., which is operated and 50% owned by your Company, to connect gas production in the Dunmore area south of Medicine Hat to the present market outlet.

Additional leases were acquired in the Mitsue field during 1965 and development drilling proved about 75% of this acreage to be productive. Your Company participated with others in the drilling and completion of 14 oil wells in this field. The remaining undeveloped acreage in Mitsue is being drilled this year.

Your Company also acquired crude oil reserves in the Swan Hills field by the purchase of an interest in the Deer Mountain Unit.

In the Medicine Hat area 106,983 acres of natural gas leases were acquired on which 31 net gas wells were completed and producing or capable of producing.

Various interests were also acquired in permits and leases in Alberta, British Columbia and the Northwest Territories. Some of these interests are outlined on maps elsewhere in this Report.

*Acquisitions
and
Development
of Oil & Gas
Properties*

Revenue from operations for the year ended November 30, 1965 was \$7,455,316, compared with \$7,072,589 for the previous year. After provision for all charges to income and for deferment of income taxes, earnings for the year amounted to \$1,471,846, or a reduction of 5% from the previous year. After allowing for preferred dividends, earnings amounted to 86 cents per common share. The reduction in net earnings resulted from lower pipe line throughputs and the inherent time lag between acquisition of non-producing oil and gas properties and their development during which time interest charges are incurred. During the fiscal year, investment in carrier property, land, leases, wells and other equipment amounted to \$5,465,497. This compares with \$4,307,150 invested in 1964. Your Company intends to continue its policy of expansion in the oil and gas producing segment of its business.

*Financial
and Earnings*

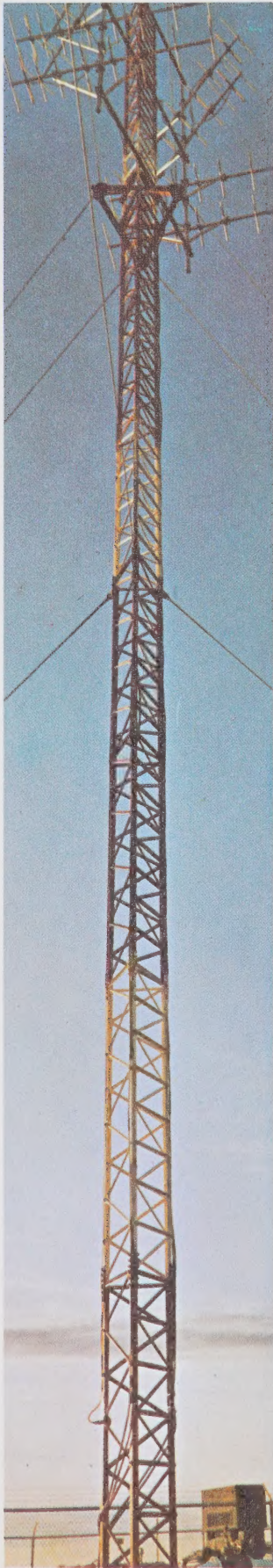
Your Directors extend their sincere and grateful thanks to all employees for their continuing enthusiasm and efforts on behalf of the Company.

By Order of the Board,



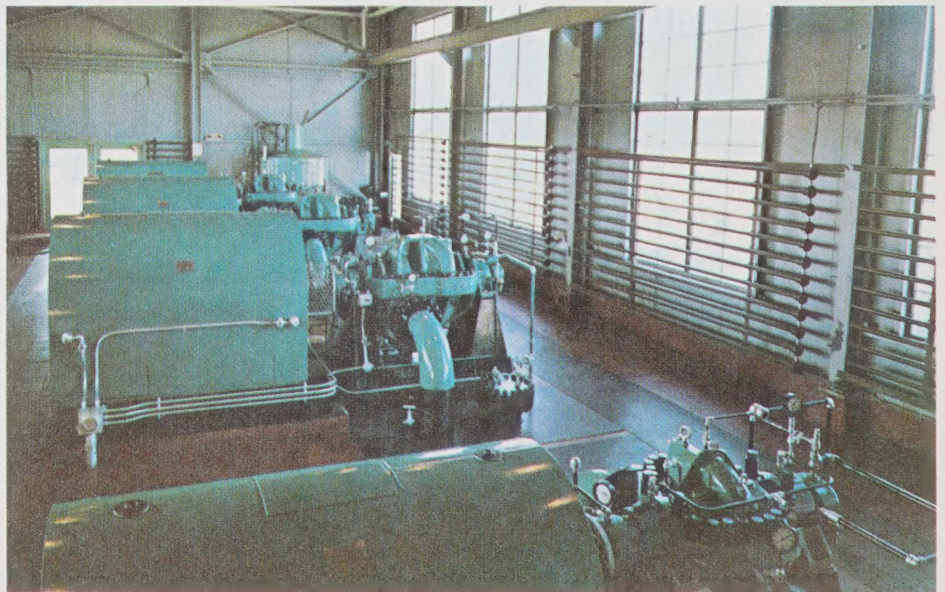
President

Calgary, Alberta
February 10, 1966.



Edmonton Terminal
Central control station for remote operation of trunk line system.

Buck Creek Pump Station—4350 Horsepower
Interior view of pump room showing pumping equipment which is remotely controlled from Edmonton.



Calmar Booster Station—1250 Horsepower
Booster pump and relay station for V.H.F. communication system.

Pembina Pipe Line Ltd.

Pipeline Statistics

Field Receipts

Crude oil receipts from all fields amounted to 43,169,000 barrels, and the following table indicates the amount received from each field:

	<u>1965</u>	<u>1964</u>
Pembina	39,994,000	41,502,000
Willesden Green	2,260,000	2,155,000
Bigoray	196,000	185,000
Cyn Pem	280,000	275,000
Rocky Mountain House	54,000	35,000
Edson	385,000	80,000
	<u>43,169,000</u>	<u>44,232,000</u>

Main Line Throughputs

The above noted crude oil was delivered to the following delivery points:

Interprovincial Pipe Line Company at Edmonton	21,903,000	25,273,000
Trans Mountain Oil Pipe Line Co. at Edmonton	6,647,000	6,851,000
Refineries at Edmonton	14,234,000	12,028,000
Gibson Petroleum Company near Edson	385,000	80,000
	<u>43,169,000</u>	<u>44,232,000</u>

Facilities Added in 1965

	PEMBINA	WILLESDEN GREEN	ROCKY MTN. HOUSE	EDSON	TOTAL
Miles of crude oil gathering lines installed . .	31.74	7.64	—	—	39.38
New batteries connected	27	4	1	—	32
Batteries automated	4	4	—	1	9

Jurassic oil well in the Medicine River field, Alberta.



Pembina Pipe Line Ltd.

Oil and Gas Production Statistics

Crude Oil Production (Net Barrels)

Following is a table indicating crude oil production from various fields:

	<u>1965</u>	<u>1964</u>
Crossfield	9,502	2,137
Gilby	12,305	2,049
Medicine River	21,805	3,977
Mitsue	5,638	—
Pembina	18,066	2,751
Swan Hills	31,399	—
Willesden Green	15,741	2,619
Other	7,632	445
	<u>122,088</u>	<u>13,978</u>

Gas Production (Mmcf)

Volumes of gas produced from various fields and sold to the City of Medicine Hat and Northwest Nitro Chemicals were as follows:

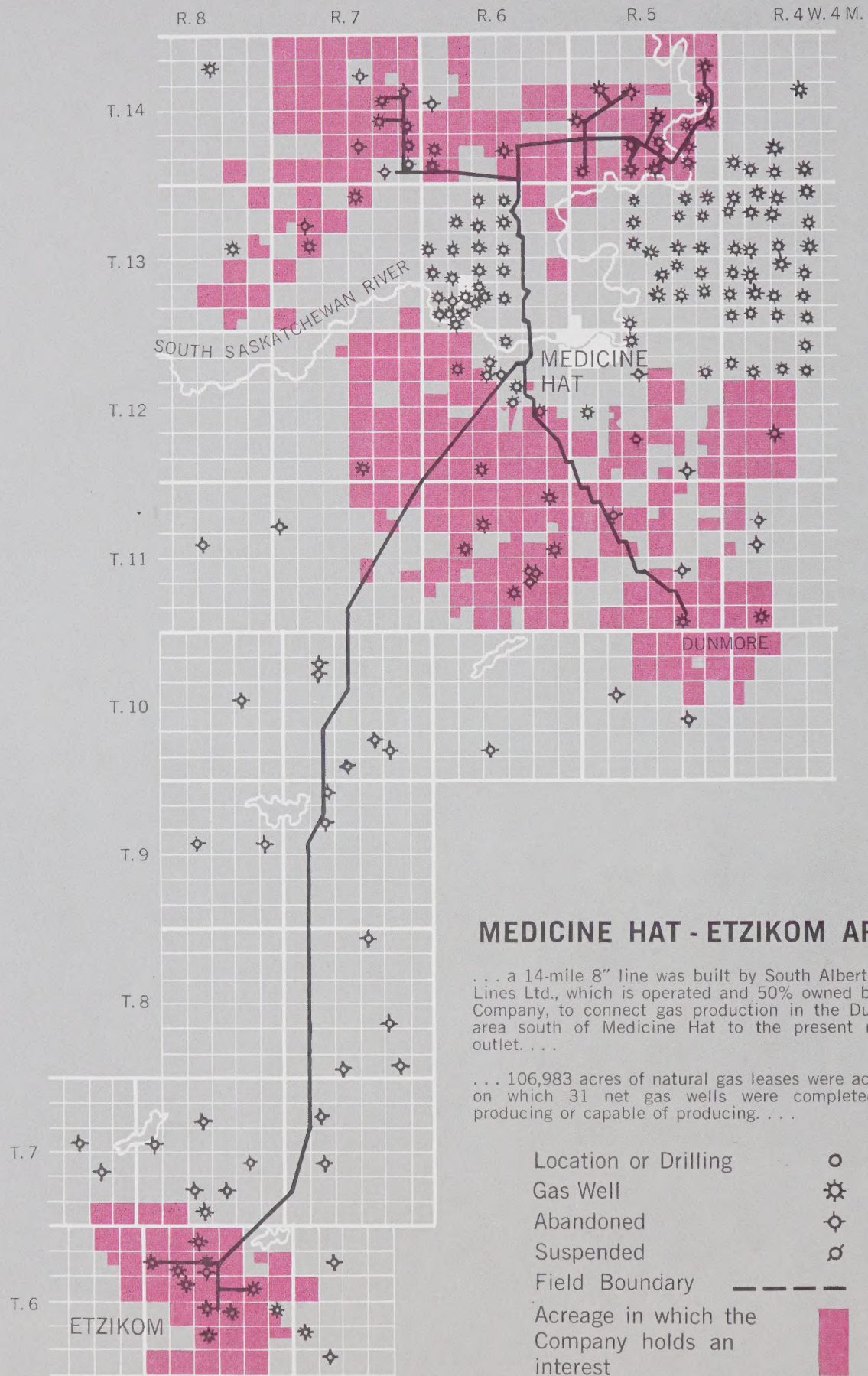
	<u>1965</u>	<u>1964</u>
Dunmore	290	—
Etzikom	1,420	1,490
Medicine Hat	2,055	—
	<u>3,765</u>	<u>1,490</u>

Summary of Wells Added in 1965

	<u>Gross</u>	<u>Net</u>
Gas wells	31	31
Oil wells	21	7.1
	<u>52</u>	<u>38.1</u>

Summary of Acreage Acquired in 1965

	<u>Gross</u>	<u>Net</u>
British Columbia	51,331	12,833
Alberta	145,728	114,883
Northwest Territories	161,410	161,410
	<u>358,469</u>	<u>289,126</u>



Pembina Pipe Line Ltd.

Source and Application of Funds 1965

(WITH COMPARISON FOR PREVIOUS YEARS)

	1965	1964	1963	1962	1961
SOURCE OF FUNDS:					
Net earnings	\$1,471,846	\$1,543,508	\$1,369,688	\$1,359,375	\$1,451,529
Depreciation and amortization	1,885,245	1,657,174	1,493,609	1,373,726	1,398,997
Deferred income taxes	914,171	1,002,503	164,801	95,502	101,966
Provision to defer income tax credits	546,325	579,717	—	—	—
Debt discount amortized	24,529	24,858	26,915	28,629	32,412
Production loans (net)	2,220,400	1,048,500	—	—	—
Other items (net)	—	4,000	—	994	80
	<u>\$7,062,516</u>	<u>\$5,860,260</u>	<u>\$3,055,013</u>	<u>\$2,858,226</u>	<u>\$2,984,984</u>
APPLICATION OF FUNDS:					
Additions to carrier property, land, leases, wells and other equipment (net)	\$5,465,497	\$4,307,150	\$1,389,171	\$1,244,984	\$1,390,647
Sinking fund requirements	1,481,000	1,390,000	1,330,000	1,182,000	1,149,500
Additional income taxes	—	56,306	—	3,093	—
Investment in bonds and shares of other companies	(50,500)	(8,381)	300,000	2,500	—
Advances to wholly owned subsidiaries (net)	(29,111)	(5,617)	100	56,517	(13,833)
Preferred dividends	72,083	75,523	79,188	83,580	86,692
Operating oil supply	—	3,381	—	—	—
	<u>\$6,938,969</u>	<u>\$5,818,362</u>	<u>\$3,098,459</u>	<u>\$2,572,674</u>	<u>\$2,613,006</u>
Increase (Decrease) in Working Capital					
Working Capital (Deficit)	\$ 123,547	\$ 41,898	\$ (43,446)	\$ 285,552	\$ 371,978
	<u>\$ (423,646)</u>	<u>\$ (547,193)</u>	<u>\$ (589,091)</u>	<u>\$ (545,645)</u>	<u>\$ (831,197)</u>

Pembina P Balan

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(WITH COMPARAT

Assets

Fixed assets, at cost:

Investment in carrier property, land, leases, wells and other equipment	\$41,208,785	35,859,030
Less accumulated depreciation and amortization	11,447,414	9,716,738

	29,761,371	26,142,292
Operating oil supply	485,572	485,572

	30,246,943	26,627,864
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Investment in shares and advances to wholly-owned subsidiary companies:

Investment in shares, at cost	22,600	22,600
Advances	44,752	73,863

	67,352	96,463
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Investment in bonds and shares of other companies, at cost	243,619	294,119
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Current assets:

Cash	276,852	70,410
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Accounts receivable:

Trade accounts	620,618	663,142
Others	64,099	65,848

Funds held by trustee	68,717	40,860
---------------------------------	--------	--------

Materials and supplies, at cost	57,210	58,736
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Deposits and prepaid expenses	76,186	47,624
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Short term investments, at cost plus accrued interest	201,314	1,568,014
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Income taxes refundable	—	364,800
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	1,296,279	2,879,434
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Deferred charges:

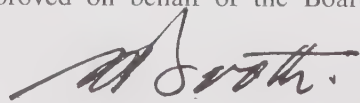
Unamortized discount on funded debt	96,356	120,885
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Organization expenses	3,656	3,656
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	100,012	124,541
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Goodwill and other intangibles, less amounts written off	620,157	658,983
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Approved on behalf of the Board:

 , Director

 , Director

	\$32,574,362	\$30,681,404
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The accompanying notes form an i

This is the balance sheet referred to in the report of Peat, Marwick

Line Ltd.

Sheet

, 1965

URES FOR 1964)

Liabilities

	1965	1964
Funded debt, less current maturities (Note 1)	\$ 6,778,000	\$ 8,259,500
Production loans—secured, less current portion (Note 2)	3,268,900	1,048,500
	<u>10,046,900</u>	<u>9,308,000</u>
Current liabilities:		
Demand bank loans	—	1,399,700
Accounts payable and accrued charges	851,821	1,854,260
Interest accrued on funded debt, net	16,454	19,267
Sinking fund payments due within one year, less bonds, debentures and preferred shares held by the company	454,650	29,900
Production loan payments due within one year	397,000	123,500
	<u>1,719,925</u>	<u>3,426,627</u>
Deferred taxes on income (Note 3)	4,428,295	3,514,123
Deferred income tax credits on petroleum and natural gas interests (Note 3)	1,126,042	579,717
Shareholders' equity:		
Capital stock:		
5% cumulative redeemable first preferred shares of a par value of \$50.00 each. Authorized 60,000 shares; issued 40,000 shares (Note 4)	2,000,000	2,000,000
Less shares redeemed: 1965—10,500 shares; 1964—9,000 shares	525,000	450,000
	<u>1,475,000</u>	<u>1,550,000</u>
Less sinking fund payment due within one year	125,000	75,000
	<u>1,350,000</u>	<u>1,475,000</u>
Common shares of a par value of \$1.25 each. Authorized 4,000,000 shares; issued: 1965—1,623,177 shares; 1964—1,609,372 shares (Note 5)	2,028,971	2,011,715
	<u>3,378,971</u>	<u>3,486,715</u>
Capital redemption reserve fund	525,000	450,000
Paid-in surplus (Note 5)	182,529	74,285
Retained earnings (Note 6)	11,166,700	9,841,937
	<u>15,253,200</u>	<u>13,852,937</u>
	<u>\$32,574,362</u>	<u>\$30,681,404</u>

part of the financial statements.

hell & Co., Chartered Accountants, dated January 13, 1966.

Pembina Pipe Line Ltd.

Statement of Earnings

YEAR ENDED NOVEMBER 30, 1965
(WITH COMPARATIVE FIGURES FOR 1964)

	1965	1964
Revenue from operations	\$7,455,316	\$7,072,589
Expenses:		
Operating	2,076,867	1,841,626
Directors' fees	4,600	4,800
Depreciation and amortization	1,885,245	1,657,174
	3,966,712	3,503,600
Net earnings from operations	3,488,604	3,568,989
Miscellaneous charges (income) net:		
Interest, and amortization of discount on funded debt	575,370	464,170
Profit on sinking fund operations	(19,108)	(20,910)
	556,262	443,260
Net earnings before the following	2,932,342	3,125,729
Provision for future year's income taxes (Note 3)	914,171	1,002,504
	2,018,171	2,123,225
Provision to defer income tax credits on petroleum and natural gas interests (Note 3)	546,325	579,717
Net earnings	\$1,471,846	\$1,543,508

The accompanying notes form an integral part of the financial statements.

Pembina Pipe Line Ltd.

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Statement of Retained Earnings

YEAR ENDED NOVEMBER 30, 1965

Balance at November 30, 1964	\$ 9,841,937
Add net earnings year ended November 30, 1965	1,471,846
	11,313,783

Deduct:

Dividend paid on 5% cumulative redeemable first preferred shares	\$72,083	
Transfer to capital redemption reserve fund	75,000	147,083
Balance at November 30, 1965		\$11,166,700

Statement of Capital Redemption Reserve Fund

YEAR ENDED NOVEMBER 30, 1965

Balance at November 30, 1964	\$ 450,000
Add transfer from retained earnings re redemption of preferred shares	75,000
Balance at November 30, 1965	\$ 525,000

The accompanying notes form an integral part of the financial statements.

Pembina Pipe Line Ltd.

Notes to Financial Statements

NOVEMBER 30, 1965

1. Funded debt:

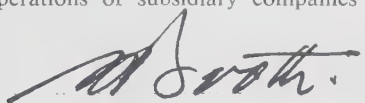
	1965	1964
First mortgage bonds:		
4¼ % serial bonds, series "A":		
Authorized and issued (maturing as to \$400,000		
on December 1, in each year)	\$ 3,500,000	\$ 3,500,000
Less redeemed and cancelled	3,100,000	3,100,000
	400,000	400,000
4¾ % 17-year bonds, series "A", due December 1, 1971:		
Authorized and issued	4,000,000	4,000,000
Less redeemed and cancelled	1,791,000	1,616,000
	2,209,000	2,384,000
4½ % bonds, series "B", due October 1, 1973:		
Authorized and issued	3,125,000	3,125,000
Less redeemed and cancelled	1,623,000	1,436,000
	1,502,000	1,689,000
6 % bonds, series "C", due December 1, 1974:		
Authorized and issued	2,400,000	2,400,000
Less redeemed and cancelled	994,000	852,000
	1,406,000	1,548,000
	5,517,000	6,021,000
Debentures:		
5 % sinking fund debentures, series "A", -due December 1, 1972:		
Authorized and issued	2,000,000	2,000,000
Less redeemed and cancelled	783,500	696,000
	1,216,500	1,304,000
5 % sinking fund debentures, series "B", due October 1, 1974		
(conversion privilege expired):		
Authorized and issued	1,400,000	1,400,000
Less converted into common stock and redeemed and cancelled . . .	399,000	328,000
	1,001,000	1,072,000
6 % convertible sinking fund debentures, series "C",		
due December 1, 1975 (Note 5):		
Authorized and issued	720,000	720,000
Less converted into common stock and redeemed and cancelled . . .	269,500	134,500
	450,500	585,500
	2,668,000	2,961,500
Deduct sinking fund payments due within one year, less principal amount of		
securities delivered in advance of requirements amounting to:		
1965—\$417,000; 1964—\$818,000	671,500	286,000
Funded debt less current maturities	7,513,500	8,696,500
Deduct securities purchased to meet other than current maturities	735,500	437,000
	\$ 6,778,000	\$ 8,259,500

2. Production loans consist of demand bank loans in the amount of \$3,665,900, which loans will be repaid at a rate sufficient to retire \$397,000 by November 30, 1966. These loans are secured by certain of the company's interests in petroleum and natural gas properties and an assignment of their interest in the gas purchase contracts applicable to the pledged natural gas interests.

3. In accordance with the Income Tax Act the company is permitted, for tax purposes, to claim depreciation in amounts other than those provided in its accounts and also to deduct the cost of petroleum and natural gas interests. Accordingly, tax deferrals and savings have been effected during the year and have been treated in the accounts as a charge against earnings and a credit to deferred taxes on income and a credit to deferred income tax credits on petroleum and natural gas interests. The latter is being amortized over the life of the petroleum and natural gas interests, and represents the savings in excess of taxes expected to be payable in the future when depletion will be claimed on production income.
4. The company may at its option redeem the whole or any part of the 5% cumulative redeemable first preferred shares on not less than 30 days notice at par value plus a premium of 2¾% to December 1, 1966 and thereafter at a reducing premium to December 1, 1972, after which no premium is payable upon redemption.
5. The 6% convertible sinking fund debentures, series "C", carry a conversion privilege exercisable on or before December 1, 1965, entitling the holders thereof to exchange each \$500 principal amount of said debentures for 55 common shares of the company. During the year ended November 30, 1965 debentures having a par value of \$125,500 were exchanged for 13,805 common shares. The proceeds were credited in the amount of \$17,256 to capital stock and \$108,244 to paid-in surplus. Subsequent to November 30, 1965 debentures having a par value of \$380,500 were exchanged for 41,855 common shares.
6. The trust deeds securing the first mortgage bonds and the debentures place certain restrictions upon the payment of dividends on the common shares of the company and upon the redemption or repayment of any capital stock.

Statement in accordance with Section 122(6) of The Companies Act (Alberta):

The company has three subsidiary companies, two of which were inactive during the year ended November 30, 1965. The operations of the active subsidiary for the year ended November 30, 1965 resulted in a profit of \$22,090, which profit has not been reflected in the accounts of Pembina Pipe Line Ltd. The results of all prior operations of subsidiary companies have been reflected in the accounts.



Director



Director

PEAT, MARWICK, MITCHELL & Co.

CHARTERED ACCOUNTANTS

309 EIGHTH AVENUE WEST
CALGARY, ALBERTA

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Pembina Pipe Line Ltd. as of November 30, 1965 and the statement of earnings, retained earnings and capital redemption reserve fund for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and statements of earnings, retained earnings and capital redemption reserve fund are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company at November 30, 1965, and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Calgary, Alberta
January 13, 1966

Chartered Accountants

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RAINBOW FIELD

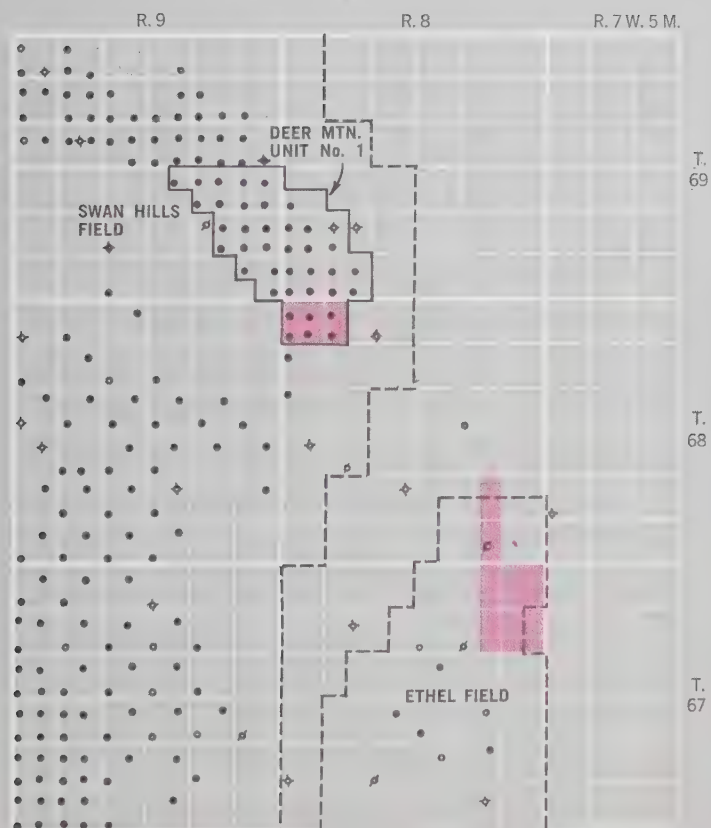
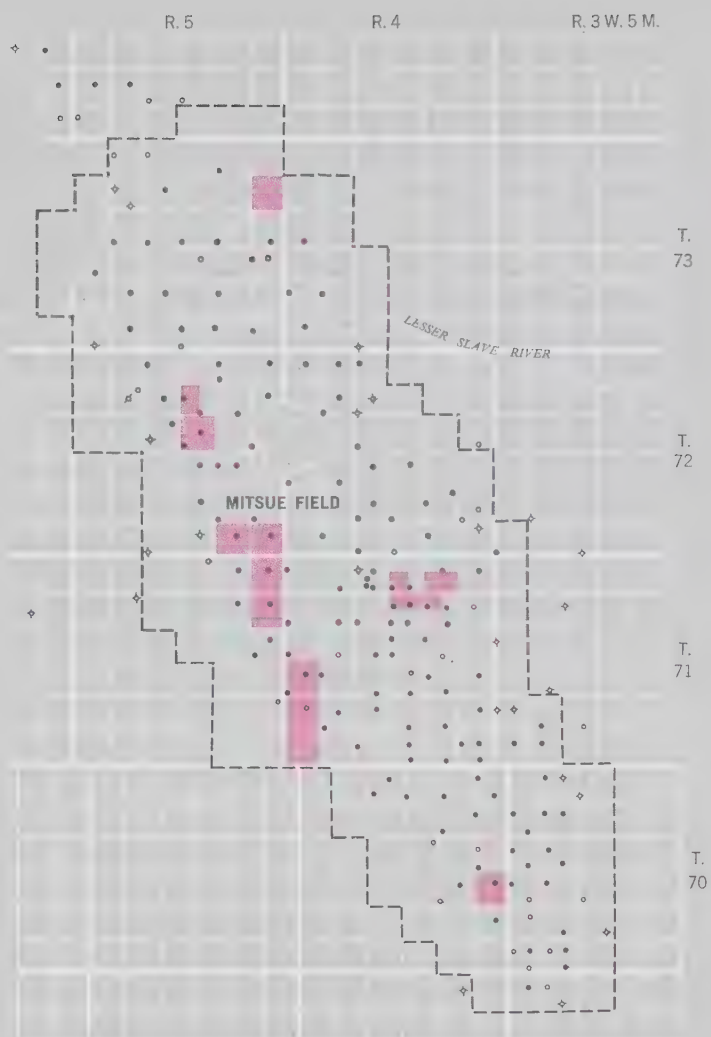
British Columbia
Alberta

P & NG PERMIT #970
12,800 Acr.

PERMIT #1540
51,331 Acr.

In 1965 your Company acquired an interest in P. & N. G. Permit #970 in the Rainbow area of northwestern Alberta and an interest in Permit #1540 in the Chinchaga River area of northeastern British Columbia.

... your Company participated with others in the drilling and completion of 14 oil wells in this field. ...



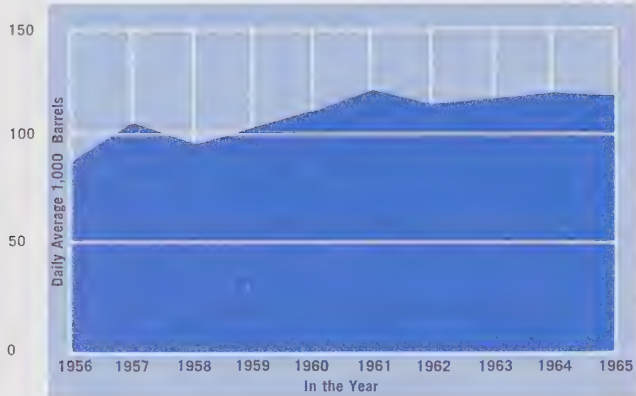
... your Company also acquired crude oil reserves in the Swan Hills field by the purchase of an interest in the Deer Mountain Unit. ...

Location or Drilling	○
Oilwell	●
Abandoned	⊕
Suspended	⊗
Field Boundary	---
Acreage in which the Company holds an interest	

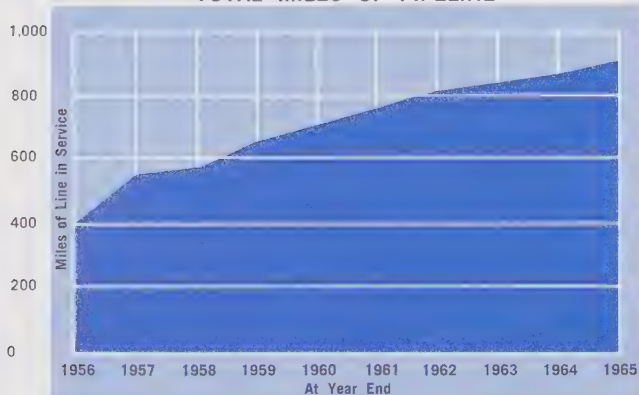
Pembina Pipe Line Ltd.

Ten Year Review

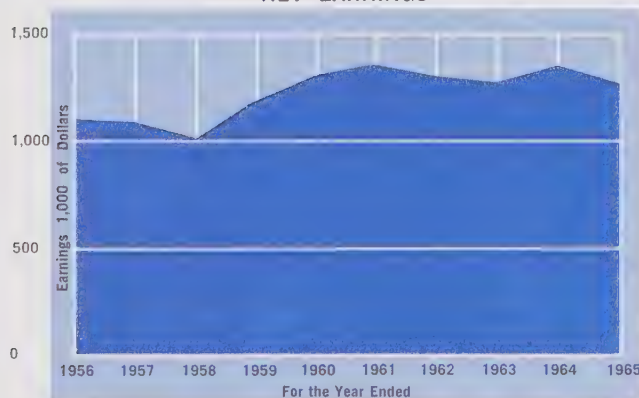
PIPE LINE THROUGHPUTS



TOTAL MILES OF PIPELINE



NET EARNINGS



Operations

PIPE LINE

Average deliveries in barrels per day	118,270
Miles of line built in the year	39
Miles of line in system at year end	909
Batteries connected in the year	32
Batteries automated in the year	7
Additional wells served during the year	175

OIL & GAS

Crude oil production—net barrels	122,100
Gas sales—billion cubic feet	3.77
Wells net at year end:	
Oil	17.0
Gas	38.8

Financial

Net earnings for the year	\$ 1,471,846
Earnings per common shares	86¢
Investment in fixed assets at year end—at cost . . .	\$41,694,357
Long term debt less current maturities at year end . .	\$10,046,900

1965

<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>	<u>1957</u>	<u>1956</u>
120,850	116,740	113,580	121,550	110,400	103,400	94,000	106,000	88,000
37	32	51	58	58	85	49	151	153
870	833	814	763	706	650	565	543	395
15	24	48	39	65	54	71	114	132
10	67	23	29	57	47	19	1	—
188	195	257	252	490	425	612	526	857
14,000								
1.49								
9.9								
7.8	6.3							
1,543,508	1,369,688	1,359,375	1,451,529	1,324,154	1,187,348	1,002,197	1,095,079	1,102,429
91¢	80¢	79¢	85¢	77¢	68¢	56¢	62¢	63¢*
36,344,602	32,223,045	30,897,099	29,701,876	28,360,652	26,744,905	26,075,732	25,557,616	19,954,043
9,308,000	9,574,500	10,829,500	11,936,500	13,087,000	14,129,000	15,163,000	12,880,500	13,742,256

* 1956 adjusted for subdivision of stock effective March 18, 1957 on a four-for-one basis.

Pembina Pipe Line Ltd.

Directors

H. BOOTH

Calgary, Alberta

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Calgary, Alberta

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Calgary, Alberta

FIELD OFFICES:

P.O. Box 330

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